FDIC State Profile

Spring 2004

Vermont

New payroll data for Vermont provide a decidedly less positive view of the state's economy.

- Gains in employment that were originally estimated for the first half of 2003 have been revised away, leaving employment levels almost static (See Chart 1). At the same time, the unemployment rate was revised sharply higher and is no longer the lowest in New England.

- Restated payroll employment data cover the period July 2002 though year 2003. These new seasonally adjusted data now show 500 jobs were lost over the period rather than the 2,200 increase originally reported. As of December, total nonfarm payroll employment is now estimated to be still 1.4 percent below the peak level reached in January, 2001. Ironically, the original estimates showed a virtual full recovery of all the jobs lost in the 2001 recession by April, 2003. Revised data now show that month to be the employment trough.

- The downward revisions were widely distributed across business sectors, but were most evident in manufacturing, wholesale and retail trade, professional and business services, and in leisure and hospitality. Within manufacturing, downward employment revisions were most noticeable in computer and electrical equipment. Construction and, especially, health care services, by contrast, were revised higher.

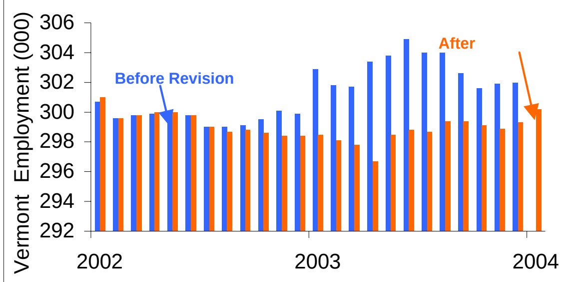
The unemployment rate for Vermont also was revised considerably higher.

- The December 2003 level is now estimated to be 4.7 percent rather than the 4.0 percent originally reported (See Chart 2). The upward revision was the largest of all the New England states.

- Initial unemployment insurance claims provide a timely and comparatively accurate measure of labor market conditions. The period of maximum distress occurred late in the recession of 2001, remained high during 2002, and then rose still further in 2003. This pattern, which differs greatly from other New England states, reflects in part decisions by IBM to downsize its workforce at Essex Junction, near Burlington (See Chart 3).

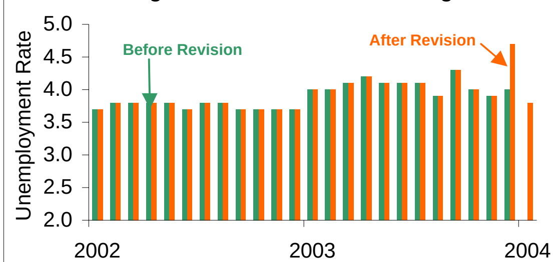
Housing remains muted.

Chart 1: Employment Gains Reported Earlier in Vermont Have Been Revised Away



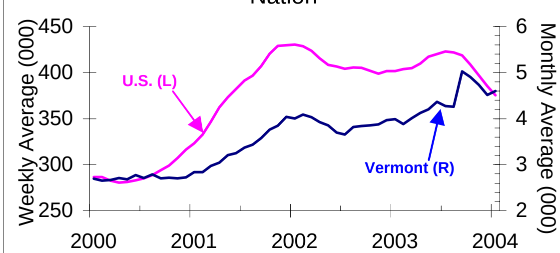
Source: Bureau of Labor Statistics of the Department of Labor, Haver Analytics. Data seasonally adjusted.

Chart 2: Unemployment Rate in Vermont is Revised Sharply Higher Over the Past Year; No Longer the Lowest in New England



Source: Bureau of Labor Statistics of the Department of Labor, Haver Analytics. Data seasonally adjusted.

Chart 3: Vermont's New Unemployment Insurance Claims Continue to Rise Despite Signs of Improvement Elsewhere in New England and in the Nation



Source: Employment and Training Administration of the Department of Labor, Haver Analytics, FDIC

- Housing activity in Vermont was largely subdued in comparison with most other New England states since the end of the recession. While housing permits rose following the recession of 2001, the gains have been moderate and did not accelerate significantly during the second half of 2003.

Vermont's insured institutions saw earnings improve in 2003 despite pressure from declining net interest margins.

- The median net interest margin (NIM) in the state's commercial institutions declined to 4.44 percent as of December 31, 2003 from 4.73 percent at year-end 2002. Savings institutions also experienced similar NIM pressure with a 12 basis point drop to 3.96 percent as of December 31, 2003 from the same period in 2002 (See Chart 4). Funding costs continued to decline as noncore funding growth slowed and core deposits grew. These improvements were offset by declining yields on earning assets which continued to negatively impact NIMs.

- Vermont's commercial institutions reported a median return on assets (ROA) of 1.11 percent as of December 31, 2003, up five basis points since the end of 2002. Earnings were boosted by increased noninterest income, low loan loss provision expenses and gains on the sale of securities, representing 14 percent of net income. Utilizing gains on the sale of securities may not be viable in the long term as unrealized gains declined from about 1.33 percent of the available for sale portfolio at the end of 2002 to 0.41 percent as of December 31, 2003.

- The state's savings institutions posted a median ROA of 0.86 percent at the end of 2003, a three basis point increase since year-end 2002. Profitability was boosted by low loan loss provision expenses, increases in noninterest income, and gains on the sale of securities representing 30 percent of net income. Without the gains, the ROA would have been about 20 basis points lower. Vermont's savings institutions still have unrealized gains available at 1.84 percent of the available for sale portfolio.

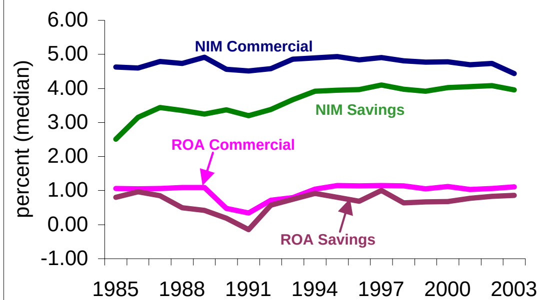
Interest rate risk remains a concern for Vermont's institutions as fixed-rate, long-term assets continue to show strong growth.

- The conventional 30-year mortgage rate has declined significantly over the past several years and is still historically low. According to the Mortgage Bankers Association, on a national basis, the level of adjustable rate mortgages has increased from only about 13.5 percent of originations in December 2002 to almost 27 percent as of December 2003. While this ultimately may allow insured institutions to reprice some assets, they still hold large volumes of long-term assets with low fixed rates.

- Since the late 1990s, asset maturities lengthened at many institutions, began to moderate late in 2002 and showed strong growth in 2003. However, this asset lengthening was tempered by strong growth in shorter-term construction and development loans and adjustable rate commercial real estate loans. As of December 31, 2003, the median ratio of long-term assets to total assets was still near historical highs at about 26 percent. With the large volume of long term assets on the books, insured institutions may be faced with a mismatch of asset and liability repricing. Net interest margin compression may occur when short-term interest rates increase as liabilities reprice at a faster rate than assets (See Chart 5).

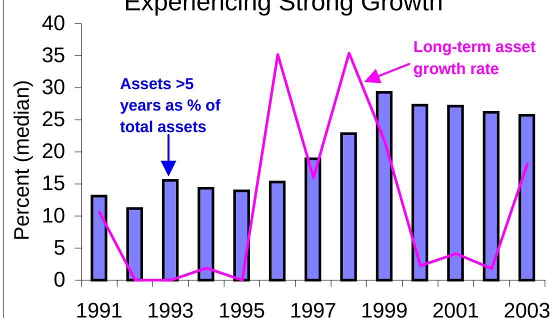
- The extension of asset maturities is pronounced in the state, as well as New England, reflecting the large percentage of residential lenders. Residential real estate loans comprised almost 42 percent of the average loan portfolio as of December 31, 2003.

Chart 4: Earnings Favorable But NIMs Show Some Pressure



Source: Bank and Thrift Call Reports, Data as of 4th quarter.

Chart 5: Long-Term Asset Concentrations Still Experiencing Strong Growth



Source: Bank Call Reports, Data as of 4th quarter.

Vermont at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	19	20	23	23	25
Total Assets (in thousands)	7,453,235	7,214,651	8,989,650	8,621,689	8,591,047
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	0	1

Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	8.64	9.04	8.97	8.74	8.98

Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	2.01%	2.25%	2.43%	2.17%	2.15%
Past-Due and Nonaccrual >= 5%	0	0	2	0	2
ALLL/Total Loans (median %)	1.26%	1.21%	1.33%	1.30%	1.43%
ALLL/Noncurrent Loans (median multiple)	1.88	1.54	1.97	2.11	1.83
Net Loan Losses/Loans (aggregate)	0.14%	0.16%	0.28%	0.19%	0.25%

Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	1	0	1	0	2
Percent Unprofitable	5.26%	0.00%	4.35%	0.00%	8.00%
Return on Assets (median %)	0.98	0.97	1.01	1.01	1.01
25th Percentile	0.78	0.83	0.83	0.81	0.81
Net Interest Margin (median %)	4.39%	4.70%	4.64%	4.65%	4.72%
Yield on Earning Assets (median)	5.75%	6.73%	7.87%	8.32%	8.05%
Cost of Funding Earning Assets (median)	1.37%	2.17%	3.19%	3.78%	3.39%
Provisions to Avg. Assets (median)	0.11%	0.16%	0.14%	0.16%	0.18%
Noninterest Income to Avg. Assets (median)	0.89%	0.73%	0.63%	0.62%	0.55%
Overhead to Avg. Assets (median)	3.51%	3.50%	3.42%	3.35%	3.48%

Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	82.70%	82.91%	81.59%	85.19%	83.13%
Loans to Assets (median %)	68.03%	69.66%	69.66%	70.09%	70.32%
Brokered Deposits (# of Institutions)	2	0	0	0	5
Bro. Deps./Assets (median for above inst.)	0.13%	na	na	na	0.48%
Noncore Funding to Assets (median)	10.60%	11.25%	11.89%	11.48%	10.50%
Core Funding to Assets (median)	78.91%	78.71%	78.10%	76.95%	79.41%

Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	6	7	7	7	10
National	8	8	11	11	10
State Member	0	0	0	0	0
S&L	1	1	1	1	1
Savings Bank	1	1	1	1	1
Stock and Mutual SB	3	3	3	3	3

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	16	3,284,908	84.21%	44.07%
Burlington VT	3	4,168,327	15.79%	55.93%